

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7157

BILL NUMBER: HB 1914

DATE PREPARED: Jan 30, 2001

BILL AMENDED:

SUBJECT: Income Tax Deduction for Nursing Home Residents.

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides that a taxpayer who resides in a nursing home is entitled to an Adjusted Gross Income (AGI) Tax deduction in an amount equal to the amount included in the taxpayer's AGI and reported on the taxpayer's federal income tax return as pension and annuity income or IRA distributions.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *The reduction in state revenue associated with this bill could be as much as \$16.1 M in FY 2002 and \$17.4 M in FY 2003.*

This bill provides a deduction from state taxable income for individuals residing in nursing homes. The taxpayer would be able to deduct the amount of federal AGI from pension or annuity income and IRA distributions (for those at least 59 and one-half years old). As this deduction would be effective for tax years beginning January 1, 2001, the annual fiscal impact will begin in FY 2002.

Data and Estimation: According to data from the Family and Social Services Administration, the average population of Indiana's nursing homes from 1997 to 1999 was 41,727. Projected tax impacts were made using 1998 data from the Internal Revenue Service regarding the amount of pension/annuity income per Indiana taxpayer (\$10,930) and the average amount of taxable IRA distributions (\$8,498). Adjustments were made to consider the amount of exemptions and deductions that would be claimed by a nursing home resident. Other adjustments were made for nursing home residents receiving Medicaid, such as an individual with more than \$2,500 in assets (including IRAs) would not qualify for Medicaid. From 1997 to 1999, the average number of Medicaid recipients residing in nursing homes was 27,419.

Based on historic growth rates in pension income and IRA distributions, this proposal could reduce individual income tax revenue by as much as \$16.1 M in FY 2002 and \$17.4 M in FY 2003. Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience an indeterminable reduction in their revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Internal Revenue Service, Statistics of Income Bulletin, Spring 2000 (Vol. 19, no. 4); Susan Preble, Legislative Liaison, Family and Social Services Administration, (317) 232-1149.